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Natural Gas Weekly Update

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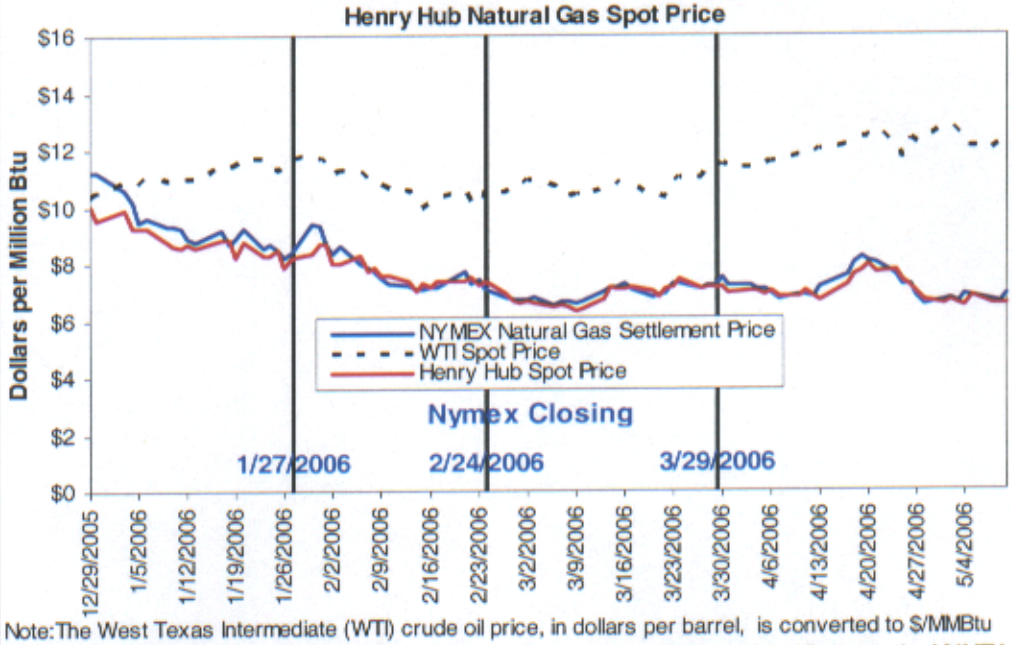
Overview: Thursday, May 11 (next release 2:00 p.m. on May 18, 2006)

Springtime temperatures in most regions of the country this week and slightly lower pric for crude oil led to an easing of natural gas spot prices in the Lower 48 States sin Wednesday, May 3. On the week (Wednesday-Wednesday, May 3-10), the Henry Hub sp price dropped 6 cents per MMBtu, or less than 1.0 percent, to $6.50. In contrast to sp market activity, trading of futures contracts at the New York Mercantile Exchange (NYME this week resulted in gains. The NYMEX contract for June delivery increased 29.4 cents p MMBtu on the week to a daily settlement of $6.900 yesterday (May 10). Net injectic reported in today's release of EIA's *Weekly Natural Gas Storage Report* brought natural g storage supplies to 1,989 Bcf as of Friday, May 5, which is 56.0 percent above the 5-y average inventory for the report week. The spot price for West Texas Intermediate (W crude oil decreased $0.11 per barrel on the week to $72.15 per barrel, or $12.44 per MMBt

NYMEX Natural Gas Futures Near-Month Contract Settlement Price, West Texas Intermediate Crude Oil Spot Price, and Henry Hub Natural Gas Spot Price



Note:The West Texas Intermediate (WTI) crude oil price, in dollars per barrel, is converted to $/MMBtu using a conversion factor of 5.80 MMBtu per barrel. The dates marked by vertical lines are the NYMEX near-month contract settlement dates.

Source: Natural gas prices, *NGI's Daily Gas Price Index* (http://Intelligencepress.com); WTI price, Reuters News Service (http://www.reuters.com).

Prices:

Moderate temperatures this week left prices lower than the previous week at nearly all marl locations across the Lower 48 States. For the week, prices at production-area tradi locations along the Gulf Coast generally decreased between 2 and 18 cents per MMBtu. T Henry Hub spot price fell to $6.50 per MMBtu, which is 6 cents lower than last Wednesda level. The largest price decreases on the week were in West Texas, the Rockies, a California, regions which generally experienced mild temperatures. The average price at fc trading locations in California yesterday was $5.53 per MMBtu, which was 31 cents low than the previous Wednesday. The spot price at the Opal, Wyoming, trading location fell

cents per MMBtu to $5.33, which was $1.17 less than the Henry Hub price. The lack temperature extremes in the Northeast also led to declines, albeit less than in the West. Pric in the Northeast yesterday (May 10) averaged $6.87 per MMBtu, or 14 cents lower than t price on the previous Wednesday. The price in the New York City area off Transcontinen Gas Pipe Line (Transco) has dropped in four of the five trading sessions this week, endi trading yesterday at $6.93 per MMBtu, reflecting a total decline for the week of 16 cents p MMBtu or about 2 percent. There were several exceptions to the general decline, notably markets located along paths to Florida, where hot temperatures continue to boost prices. (Tuesday, May 9, Florida Gas Transmission alerted shippers to keep gas flows balanced duri expected periods of high demand.

Spot Prices ($ per MMBtu)	Thur. 4-May	Fri. 5-May	Mon. 8-May	Tue. 9-May	Wed 10-May
Henry Hub	6.46	6.80	6.54	6.56	6.50
New York	6.98	7.27	7.10	7.04	6.93
Chicago	6.13	6.17	6.02	6.09	6.17
Cal. Comp. Avg,*	5.59	5.54	5.56	5.65	5.57
Futures ($/MMBtu)					
June delivery	6.906	6.775	6.696	6.581	6.900
July delivery	7.146	7.032	6.954	6.831	7.144

*Avg. of NGI's reported avg. prices for: Malin, PG&E citygate, and Southern California Border Avg.
Source: NGI's Daily Gas Price Index (http://intelligencepress.com).

NYMEX futures prices increased this week, in part owing to large gains yesterday (May 1 that reversed consecutive declines in the previous three sessions. The near-month contract (June delivery) increased on the week by 29.4 cents per MMBtu, or 4.5 percent, as it settl yesterday at $6.900. The price of the near-month contract ended yesterday $0.298 per MMI lower than the May contract's final settlement price of $7.198. Nonetheless, the June contr price was still higher (by almost 78 cents per MMBtu) than the final settlement price $6.123 for the June 2005 contract. Prices for futures contracts for the next heating seas (November 2006 – March 2007) continue to trade at a large premium to current pric providing a substantial incentive to store gas for next winter. The prices for contracts for t next heating season yesterday averaged $10.986 per MMBtu, which was $4.486 more th yesterday's Henry Hub spot prices. The 12-month strip, which is the average price for futu contracts over the next 12 months, closed yesterday at $9.274 per MMBtu, an increase of 2 cents since last Wednesday.

Recent Natural Gas Market Data

Estimated Average Wellhead Prices

	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06	Apr-06
Price ($ per Mcf)	9.54	10.02	8.66	7.28	6.52	6.59
Price ($ per MMBtu)	9.29	9.76	8.43	7.09	6.35	6.42

Note: Prices were converted from $ per Mcf to $ per MMBtu using an average heat content of 1,027 Btu per cubic foot as published in Table A4 of the Annual Energy Review 2002.
Source: Energy Information Administration, Office of Oil and Gas.

Storage:
Working gas in underground storage was 1,989 Bcf as of May 5, which is 56.0 percent abc the 5-year average inventory level for the report week, according to EIA's *Weekly Natu Gas Storage Report* (See Storage Figure). The net change marks the largest net injection t year. The implied net injection for the week was 85 Bcf, which is 21 percent higher than t

5-year average net injection of 70 Bcf and 63 percent higher than last year's net injection of 52 Bcf. As a result, the difference between current inventory levels and the 5-year average increased to 714 Bcf and the difference between current inventories and last year's level expanded to 488 Bcf. The latest heating- and cooling-degree day statistics published by the National Weather Service for the period roughly coinciding with the week covered by this storage report show that weather-related gas demand was minimal relative to the peak periods in the summer and winter, limiting any heating- or cooling-load demand (See Temperature Maps). Only the New England and South Atlantic Census divisions had greater-than-normal heating degree days (HDD), with HDDs numbering 6 and 9 percent higher than normal, respectively. As to cooling degree days (CDD), some divisions showed large percentage differences from normal, but the actual CDD levels were relatively low compared with summer levels and therefore do not represent significant cooling demand.

All Volumes in Bcf	Current Stocks 5/5/06	One-Week Prior Stocks 4/28/06	Implied Net Change from Last Week	Estimated Prior 5-Year (2001-2005) Average	Percent Difference from 5 Year Average
East Region	1,008	959	49	608	65.8%
West Region	267	255	12	207	29.0%
Producing Region	714	690	24	461	54.9%
Total Lower 48	1,989	1,904	85	1,275	56.0%

Source: Energy Information Administration: Form EIA-912, "Weekly Underground Natural Gas Storage Report," and the Historical Weekly Storage Estimates Database. Row and column sums may not equal totals due to independent rounding.

Other Market Trends:

EIA's Short-Term Natural Gas Outlook: According to the agency's *Short-Term Energy Outlook*, released May 9, 2006, the Energy Information Administration (EIA) expects that total U.S. natural gas consumption in 2006 will fall by about 240 Bcf, or 1.1 percent below 2005 levels, owing largely to the reduced heating demand during the unusually warm early months of the year. However, the decrease in 2006 is expected to be offset by a 700 Bcf increase in 2007, when total natural gas consumption is expected to amount to about 22.5 Tcf. The largest year-on-year increase is projected to occur in the residential sector (325.4 Bcf), followed by the industrial sector (201.7 Bcf), and the electric power sector (139.8 Bcf). Domestic dry natural gas production is projected to increase by 0.8 and 1.6 percent in 2006 and 2007, respectively, while liquefied natural gas (LNG) imports also are expected to increase, growing to 740 Bcf in 2006 and 970 Bcf in 2007. The expected decline in consumption of natural gas during 2006 will lead to a 9.9-percent decrease in the average annual Henry Hub spot price, which averaged $9.00 per Mcf in 2005 and is expected to average $8.11 per Mcf in 2006 and $9.17 per Mcf in 2007. Concerns about potential future supply tightness and continuing pressure from high crude oil prices will likely lead to higher natural gas spot prices next winter, with the Henry Hub spot price projected to increase to just under $11.00 per Mcf. Natural gas inventories in underground storage are projected to reach about 3,444 Bcf by the beginning of the 2006-2007 heating season (November 1, 2006), which is 250 Bcf or 7.8 percent higher than the natural gas stocks at the onset of the 2005-2006 heating season.

MMS Releases a Report on Deepwater Activity in the Gulf of Mexico: In early May, the Minerals Management Service (MMS) released a report entitled *Deepwater Gulf of Mexico 2006: America's Expanding Frontier*, which is its sixth report about deepwater exploration and activity in the Gulf of Mexico (GOM). This report was first published in 1997, at which time there were 17 producing projects in the deepwater (greater than or equal to 1000 feet). Since then, the number of producing projects has increased to 118 as of the end of March

2006, which is 37 percent higher than in 2002. Deepwater production started in 1979 and has become more active within the past few years because of advancements in technology and improving economics. According to the MMS, the Outer Continental Shelf (OCS) Deep Water Royalty Relief Act, which was passed in 1995 and revised in 2000, motivated increased deepwater drilling activity in the GOM. This act provided economic incentives to encourage operators to develop leases in deep water greater than 200 meters (656 feet). In 1992 there were only about 3 rigs drilling in deep water, whereas in 2005 that increased to an average of 30 rigs drilling in deep water. Natural gas production from deepwater projects increased each year by an average of roughly 400 million cubic feet of gas per day (MMcf/d) from 1997 through 2004 to more than 3,800 MMcf/d, despite a production decline in 2004. Deepwater leases in the GOM comprised roughly 54 percent of the active leases in the GOM at the end of 2005.

Natural Gas Transportation Update:

- Florida Gas Transmission Company issued an Overage Alert Day from Wednesday, May 3, through Saturday, May 7, and again on Tuesday, May 9, with a 25 percent tolerance for negative daily imbalances, owing to forecasts of 90-degree weather in the Florida market. The restraint means that shippers must stay within 25 percent of daily scheduled volumes.
- El Paso Natural Gas Company reported that 630 MMcf per day has returned to the nomination cycle in its Arizona market with the completion of station maintenance at the Bowie and Oracle compressor stations in Southeast Arizona.
- El Paso Natural Gas Company also reported that planned outages will reduce the capacity from the San Juan Basin in northwestern New Mexico by a total of 650 MMcf per day through May 15 from a base capacity of 2,820 MMcf per day. Maintenance to El Paso's North Mainline will further reduce capacity in this region by 190 MMcf per day from a base capacity of 2,238 MMcf per day.
- Transcontinental Pipelines issued an update on repairs to its offshore facilities that were damaged by Hurricane Rita in 2005. As of May 8, 2006, two production platforms remain out of service affecting about 20 MMcf per day in the Gulf of Mexico. Repairs to these two facilities are not expected until late June 2006.

Short-Term Energy Outlook

http://tonto.eia.doe.gov/oog/info/ngw/ngupdate.asp

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Energy Information Administration, EI 30
1000 Independence Avenue, SW
Washington, DC 20585